MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BFN 2044 – BANK MANAGEMENT

(All sections / Groups)

11 MARCH 2016
3.00 p.m. - 5.00 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages with 4 Questions only.
2. Answer all questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

FOUR (4) STRUCTURED QUESTIONS (25 Marks each)

Question 1 (25 Marks)

(a) How does bank regulation differs from bank supervision? Why are banks regulated? Is the regulation justified?

(15 marks)

(b) Suppose that stockbrokers have projected that BFN Bank will pay a dividend of RM3 per share on its common stock at the end of the year; a dividend of RM4.50 per share is expected for the next year, and RM 5.50 per share in the following two year. The risk-adjusted cost of capital for this bank's risk class is 15 percent. If an investor holding BFN Bank's stock plans to hold that stock for only four years and hopes to sell it at a price of RM60 per share, what should the value of the bank's stock be in today's market?

(10 marks)

Question 2 (25 Marks)

(a) Amra Bank reports a Net Interest Margin of 3.55 percent in its most recent financial report with total interest revenues of RM90 million and total interest costs of RM72 million. What volume of earning assets must the bank hold?

(5 marks)

(b) Based on the result in question (a) what will happen to Amra Bank's Net Interest Margin if the bank's revenues rise by 10 percent, its interest cost and earning assets increase 12 percent?

(8 marks)

(c) Banks nowadays are subject to different kinds of risk. Explain the following risk from the bank's operational perspective.

(i) Foreign Exchange and Sovereign Risk
(ii) Off-Balance-Sheet Risk
(iii) Operational Risk
(iv) Legal and Compliance Risk
(v) Reputation Risk
(vi) Strategic Risk

(12 marks)

Continued...

Question 3 (25 Marks)

(a) Finn Bank posts the following balance sheet entries on today's date: Net loans and leases, RM3,502 million; cash and deposits held at other banks, RM633 million; Federal funds sold, RM48 million; U.S. government securities, RM185 million; Federal funds purchased, RM62 million; demand deposits, RM988 million; time deposits, RM2,627 million; and total assets, RM4,446 million.

Using the information provided, calculate:

(i) Cash position indicator
(ii) Net Federal Funds Position
(iii) Credit Capacity Ratio
(iv) Deposit Composition Ratio
(v) Liquid Securities Indicator

(10 marks)

(b) Bonita Corporation, seeking renewal of its RM12 million credit line, reports the data in the following table (in millions of Ringgit) to Infinity Bank's loan department.

	20X1	**20X2**	**20X3**	**20X4**	**Projections for Next Year**
Costs of Goods Sold	5.1	5.5	5.7	5.8	6.0
Selling and Admin Exp.	8.0	8.0	8.0	8.1	8.2
Sales Revenue	7.9	8.5	9.2	9.4	9.8
Depreciation and other noncash expenses	11.2	11.2	11.1	11.0	11.0
Taxes Paid in Cash	4.4	4.6	4.9	4.8	4.8

Based on the above information:

(i) Please calculate the firm's cash flow for all the 5 years. (10 marks)
(ii) What trends do you observe in the cash flow? (2 marks)
(ii) Based on the results, should Infinity Bank renew Bonita Corporation credit line? (3 marks)

Continued…

Question 4 (25 Marks)

(a) Suppose a bank estimates that the marginal cost of raising loanable funds to make a RM15 million loan to one of its corporate customers is 3.25 percent, its non-funds operating costs to evaluate and offer this loan are 0.45 percent, the default-risk premium on the loan is 0.35 percent, a term-risk premium of 0.625 percent is to be added, and the desired profit margin is 0.55 percent. What loan rate should be quoted to this borrower? How much interest will the borrower pay in a year?

(8 marks)

(b) A bond currently sells for RM900 based on a par value of RM1,000 and promises RM100 in interest for three years before being retired. Yields to maturity on comparable-quality securities are currently at 12 percent. What is the bond's duration? Suppose interest rates in the market fall to 10 percent. What will be the approximate percentage change in the bond's price?

(17 marks)

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